

Message Text

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PAGE 01 PEKING 01666 260556Z

17

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INFO AMCONSUL HONG KONG

C O N F I D E N T I A L PEKING 1666

E.O. 11652: GDS

TAGS: ETRD, EAGR, CH, US

SUBJECT: PRC HALTS IMPORTS OF US SOYBEANS; DEFERS SOME US
WHEAT DELIVERIES UNTIL 1975

REF: PEKING 1592

SUMMARY: THE PRESENCE OF POISONOUS SEEDS IN SOME US SOYBEAN
SHIPMENTS TO THE PRC HAS CAUSED THE CHINA NATIONAL CEREALS, OILS
AND FOODSTUFFS IMPORT AND EXPORT CORPORATION TO HALT IMPORTS OF
SOYBEANS FROM US SUPPLIERS. THE NET RESULT WILL BE A DECREASE IN
US EXPORTS TO CHINA THIS YEAR OF AROUND \$100 MILLION. THE CHINESE
HAVE ALSO POSTPONED SOME US WHEAT DELIVERIES UNTIL NEXT YEAR AND
ONE US SUPPLIER HAS ENCOUNTERED A NEW PROBLEM SIMILAR TO TCK. MEAN-
WHILE, THE CHINESE ARE INDICATING THAT THEIR DOMESTIC COTTON CROP MAY
BE SO GOOD THIS YEAR AS TO ENABLE CHINA TO EXPORT COTTON, OR TO
RE-EXPORT COTTON PURCHASED ABROAD. END SUMMARY

1. JACQUES LANG, OF THE US COOK GRAIN COMPANY'S FRENCH
SUBSIDIARY, UNION GRANIERE, HAS BEEN IN PEKING SINCE
SEPTEMBER 13 FOR DISCUSSIONS ON COOK'S BEHALF WITH THE CHINA
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 PEKING 01666 260556Z

NATIONAL CEREALS, OILS AND FOODSTUFFS IMPORT AND EXPORT CORP

(CEROILFOOD) AND THE CHINA NATIONAL TEXTILES IMPORT AND EXPORT CORP (CHINATEX). ON SEPT 23 HE CALLED AT USLO TO GIVE THE FOLLOWING REPORT, WHICH WILL NECESSITATE SOME DOWNWARD REVISION IN SINO-US TRADE PROJECTIONS AND RAISES NEW AND POTENTIALLY ADVERSE IMPLICATIONS FOR THE FUTURE OF SINO-US AGRICULTURAL TRADE.

2. SOYBEANS - LANG CONFIRMED OUR EARLIER REPORT THAT THE CHINESE HAVE FOUND POISONOUS DATURA SEEDS IN SOME COOK SOYBEAN SHIPMENTS TO THE PRC. ON HIS ARRIVAL IN PEKING, LANG WAS ADVISED BY CEROILFOOD THAT A SIGNIFICANT NUMBER OF PERSONS IN HOPEH AND OTHER CHINESE PROVINCES HAD BEEN HOSPITALIZED THIS YEAR AFTER EATING BEAN CURD AND BEAN CURD MILK MAWE FROM COOK-DELIVERED US SOYBEANS, AND THAT THE OUTBREAKS HAD BEEN TRACED TO THE PRESENCE OF DATURA SEEDS IN THE BEANS. NO DEATHS RESULTED, CEROILFOOD SAID, BUT THE INTESTINAL PROBLEMS CAUSED BY THE SEEDS WERE SEVERE. ACCORDINGLY, CEROILFOOD TOLD LANG, THE CHINESE HAD DECIDED TO CEASE IMPORTATION OF SOYBEANS FROM THE U.S.

3. TO IMPLEMENT THIS DECISION, CEROILFOOD TOLD LANG, IT HAD ALREADY ARRANGED WITH DREYFUS REP MARQUOT, DURING THE LATTER'S TRIP TO PEKING EARLIER THIS MONTH (REFTEL), TO RESELL TO DREYFUS THE ENTIRE AMOUNT OF SOYBEANS WHICH THAT FIRM HAD SOLD TO THE PRC IN JUNE 1974 (WE BELIEVE THIS AMOUNT WAS APPROXIMATELY 650,000 TONS, VALUED AT AROUND \$120 MILLION). INTERNATIONAL PRICE DEVELOPMENTS SINCE JUNE MADE IT POSSIBLE TO NEGOTIATE THE TRANSACTION AMICABLY, LANG BELIEVES, AND SINCE DREYFUS WAS NOT DUE TO BEGIN SHIPMENT UNTIL OCTOBER THE US FIRM PROBABLY HAD LITTLE DIFFICULTY IN ARRANGING TO DISPOSE OF THE BEANS IN THIRD COUNTRY MARKETS. FOR ITS PART, LANG ESTIMATES THAT CEROILFOOD EARNED \$35-40 MILLION ON THE TRANSACTION, DUE TO RISES IN WORLD SOYBEAN PRICES BETWEEN JUNE AND SEPTEMBER.

4. AS FOR COOK, WHOSE DATURA-AFFECTED SHIPMENTS SPARKED CEROILFOOD'S DECISION, LANG SAID THAT WHEN HE ARRIVED IN PEKING ONLY A SMALL AMOUNT OF SOYBEANS REMAINED TO BE SHIPPED OUT OF 750,000 TONS WHICH COOK HAD CONTRACTED TO SUPPLY CHINA IN 1974. THIS REMAINING AMOUNT (85,000 TONS) HAS BEEN REPURCHASED BY COOK DURING THE PAST TEN DAYS AND THE SHIPMENTS, WHICH HAD ALREADY LEFT US PORTS, HAVE BEEN DIVERTED TO JAPAN. ADDING COOK'S REPURCHASES TO THOSE OF DREYFUS, LANG ESTIMATES THAT AT LEAST \$100

CONFIDENTIAL

PAGE 03 PEKING 01666 260556Z

MILLION OF SCHEDULED US SOYBEAN SHIPMENTS TO CHINA THIS YEAR, ALONG WITH A SMALLER AMOUNT WHICH DREYFUS WOULD HAVE SHIPPED IN 1975 WILL NOT BE CONSUMMATED.

5. SPECULATING ON THE REASONS FOR THIS SUDDEN TURN OF EVENTS, LANG VENTURED HIS BELIEF THAT CHINESE DEMAND FOR IMPORTED SOYBEANS HAS SUBSTANTIALLY ABATED SINCE 1973, WHEN CHINA HAD A PRESSING NEED DUE TO POOR HARVESTS THE PRECEDING YEAR.

CEROILFOOD'S JUNE 1974 PURCHASE FROM DREYFUS WAS LINKED TO A SIMULTANEOUS CANCELLATION OF CORN CONTRACTS AND OFFERED A WAY OUT OF A DIFFICULT NEGOTIATION AT THAT TIME. THE CHINESE MAY HAVE INTENDED TO USE US SOYBEANS BOUGHT FROM DREYFUS AS A SUBSTITUTE FOR BETTER AND MORE EXPENSIVE DOMESTIC BEANS WHICH THEY COULD PROFITABLY EXPORT TO JAPAN. ONCE THE DATURA PROBLEM AROSE, LANG SPECULATES, THE CHINESE RECONSIDERED THEIR POSITION AND DECIDED TO ESCAPE FROM THEIR US CONTRACTS ALTOGETHER. WHATEVER THE REASONS, NO ALTERNATIVE TO ACCEPTING THE US BEANS EXISTED, OTHER THAN CANCELLATION OR RESALE, SINCE, CONTRACTUALLY, NEITHER DREYFUS NOR COOK WERE BOUND TO SUPPLY DATURA-FREE BEANS.

6. WHEAT - ACCORDING TO LANG, MAJOR RENEGOTIATIONS OF US WHEAT SHIPMENTS

TO CHINA HAVE ALSO BEEN UNDERWAY. DURING MARQUOT'S RECENT VISIT TO PEKING, LANG HAS LEARNED, ARRANGEMENTS WERE MADE UNDER WHICH DREYFUS WILL DEFER DELIVERY OF THE BALANCE (450,000 TONS) OF ITS JUNE 1974 WHEAT SALE TO CHINA UNTIL JUNE-SEPTEMBER NEXT YEAR. ORIGINALLY THESE DELIVERIES HAD BEEN SCHEDULED FOR OCTOBER 1974 MARCH 1975. IN ADDITION, CEROILFOOD HAS NOW ASKED COOK TO DEFER SHIPMENT OF 150,000 TONS OF WHEAT SCHEDULED FOR OCTOBER-DECEMBER 1974 DELIVERY UNTIL 1975. FOR REASONS OF ITS OWN (SEE BELOW) COOK HAS COUNTERPROPOSED DEFERRING DELIVERY ON THE ENTIRE BALANCE (700,000 TONS) OF ITS 1974 WHEAT SHIPMENTS TO CHINA UNTIL JANUARY-SEPTEMBER 1975, BUT CEROILFOOD HAS THUS FAR REFUSED TO AGREE.

7. COOK'S DESIRE TO POSTPONE FURTHER WHEAT DELIVERIES STEMS FROM A NEWLY ENCOUNTERED PROBLEM CENTERING ON LILIU-TILLEN-TUM-L (LTL), A HALUCINOGENIC FOREIGN AGENT RECENTLY FOUND BY USDA INSPECTORS IN TWO COOK SHIPMENTS OF US HARD RED WINTER WHEAT DESINTED FOR THE PRC. LIKE TCK SMUT, LTL IS PROHIBITED FOR IMPORT INTO THE PRC AND THIS IS SPECIFIED IN ALL CONTRACTS WITH US

CONFIDENTIAL

PAGE 04 PEKING 01666 260556Z

SUPPLIERS. ALTHOUGH COOK HAS ARRANGED TO DISPOSE OF ONE LTL-AFFECTED SHIPMENT ELSEWHERE, AND CEROILFOOD HAS AGREED TO ACCEPT THE OTHER ON AN "EXCEPTIONAL" BASIS COOK IS WORRIED HOWEVER THAT A RECURRENCE OF EITHER TCK OR LTL IN CHINA-BOUND SHIPMENTS COULD RESULT IN SUBSTANTIAL LOSSES. THUS IT WOULD LIKE TO POSTPONE THE BULK OF ITS SCHEDULED WHEAT DELIVERIES UNTIL NEXT SUMMER, WHEN IT CAN SUPPLY US SOFT RED WINTER WHEAT WHICH IS BELIEVED TO HAVE MINIMAL TCK RISK AND FOR WHICH, LANG BELIEVES, THE RISK OF LTL WOULD ALSO BE RELATIVELY LOW.

8. COTTON - IN DISCUSSIONS WITH CHINATEX, LANG HAS FOUND THE CHINESE CONFIDENT THAT THEIR 1974 CROP WILL BE EXTREMELY GOOD. ALTHOUGH THE SITUATION COULD CHANGE IN THE REMAINING WEEKS BEFORE HARVEST, CHINATEX OFFICIALS ARE NOW SAYING THAT THEY ARE NOT INTERESTED IN FURTHER IMPORTS AND THAT BY MID-OCTOBER THEY MAY

BE IN A POSITION TO OFFER COTTON FOR EXPORT. IF SO, OFFICIALS SAY, CHINATEX WILL EITHER OFFER 1 1/32 TO 1 1/8 MEDIUM STAPLE CHINESE DOMESTIC COTTON OR WILL RE-EXPORT COTTON ALREADY PURCHASED ABROAD.

9. COMMENT: ALL THINGS CONSIDERED, SINO-US AGRICULTURAL TRADE HAS UNDERGONE A ROUGH SHAKE-DOWN PERIOD IN 1974. AS WE REPORTED EARLIER (PEKING 1207), AMERICAN GRAIN SUPPLIERS NO LONGER EXPECT CHINA TO BE A MARKET FOR US CORN, AND THE FUTURE OF US SOYBEAN SALES TO CHINA NOW APPEARS PROBLEMATIC. THIS LEAVES WHEAT, TO WHICH A SECOND COMPLICATING PROBLEM MUST NOW BE ADDED, AND COTTON, FOR WHICH WE CONTINUE TO SEE A GOOD LONG-TERM MARKET EVEN IF PRC CROP CONDITIONS IN 1974 INDICATE THAT THERE MAY BE NO FURTHER US SALES THIS YEAR.
BRUCE

END QUOTE.
HOLDRIDGE

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